

MEMORANDUM

To: Mayor, City Council Representatives and the City Manager

From: Robert Ash 
Administrator - City Employee's Pension Fund

Re: Proposed Pension Ordinance Amendments

May 16, 2005

The Board of Trustees of the City Employee's Pension Fund is proposing two pension ordinance amendments which will be introduced on May 24 with a public hearing scheduled for June 7, 2005. I wanted to summarize the proposed ordinance amendments for your consideration.

The first ordinance amendment will amend various sections of the pension ordinance that pertain primarily to obsolete language regarding elective employee buy back provisions. In reviewing the current language it was determined that these subsections needed modification because they were no longer applicable to our current employees. The amendment is proposed by our outside tax attorneys as a first step to obtaining a private letter ruling from the IRS regarding the possibility of having pension contributions made on a pre-tax basis.

The second ordinance amendment will amend the manner in which "final pay" is used in pension benefit calculations. Currently there are three different methods used to determine an employee's final pay for purposes of determining their pension benefit. The first method is by using an average of the last three years' salary including overtime. The second method uses an average of the last twelve months' base pay and longevity. The third method utilizes the last month's base pay and longevity annualized. The proposed ordinance amendment limits the amount of pay that may be considered under the third method. The last month's pay will be limited, for pension purposes only, to the amount of the prior year's pay increased by not more than ten percent. Should an employee receive an increase in pay of more than ten percent during the final year then the pay for pension purposes will be reduced to a maximum of ten percent above the prior year's salary. The proposed amendment does not affect the calculations for the first two methods of determining final pay. The benefit of implementing this amendment will be to insulate the pension fund from unexpected increases in its liabilities.

There is no cost to the pension fund or the City to implement these proposed pension ordinance amendments. The amendments will not lower the current benefit level of the participants. The City Employee's Pension Fund's Board of Trustees voted to recommend both of these pension ordinance amendments.

Should you have any questions or require clarification regarding either of these amendments please do not hesitate to contact me at your convenience at x4545.

C: Richarda Momsen: City Clerk
Jorge Villegas: Assistant City Attorney

ORDINANCE NO. _____
AN ORDINANCE AMENDING CHAPTER 2.64 (CITY EMPLOYEES'
PENSION FUND) OF THE EL PASO MUNICIPAL CODE REGARDING
THE PENSION CALCULATION.

WHEREAS, the City of El Paso (the "**City**") has a defined benefit pension fund (the "**Fund**");

WHEREAS, the computation of pension benefits under the Fund are based on a formula which includes a method of computing the final pay of a participant (the "**Final Pay Computation**");

WHEREAS, on October 20, 2004, the Board of Trustees of the Fund (the "**Board**") voted in favor of changing the method of calculating the Final Pay Computation as used in the defined benefit formula; and

WHEREAS, the Board administers the Fund pursuant to and in accordance with the City's Pension Ordinance codified in Chapter 2.64 of the El Paso Municipal Code (the "**Code**").

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF EL PASO:

1. That Subsection B. of Section 2.64.200 of the Code is amended so that the first paragraph shall read in its entirety as follows:

- B. Effective September 1, 1984, any person so retired shall be entitled to receive a monthly pension from the Fund in an amount equal to (1) two and one half percent (2 ½%) of the monthly average of the gross earnings received by the employee during the three years immediately preceeding retirement, (2) two and one half percent (2 ½%) of the monthly average of the base salary and longevity pay received by the employee during the year immediately preceeding retirement, or (3) two and one half percent (2 ½%) of the monthly base salary and longevity pay the employee is entitled to receive for the month immediately preceeding retirement, whichever is greater, multiplied by the number of completed years of service, plus 0.2083 of one percent (1%) of such average or entitled monthly pay for each complete or fractional part of a month of service which is not part of a complete year; provided, however, that in computing the monthly base salary and longevity pay under option (3), base salary and longevity increases granted after July 1, 2005 shall be disregarded to the extent that such increases exceed ten percent (10%) of the prior year's base salary; provided further, however, that if a person has not made pension contributions to the Fund for the immediately preceeding twelve (12) months prior to submitting an application for retirement, increases in base salary and longevity granted after July 1, 2005 shall be disregarded in computing the monthly base salary and longevity pay under option (3) to the extent such increases exceed ten percent (10%) of that person's lowest base salary and longevity pay the employee is entitled to receive during the immediately preceeding twelve (12) months.

2. That Subsection B.1. of Section 2.64.200 of the Code is hereby deleted in its entirety.

3. That Subsections B.2. and B.3. of Section 2.64.200 of the Code are hereby renumbered as B.1. and B.2., respectively.

4. That, except as expressly amended herein, Chapter 2.64 of the Code shall remain in full force and effect.

(Signature Page to Follow)

ORDINANCE NO. _____

Signature Page

PASSED AND APPROVED this _____ day of _____, 2005.

CITY OF EL PASO

Joe Wardy
Mayor

ATTEST:

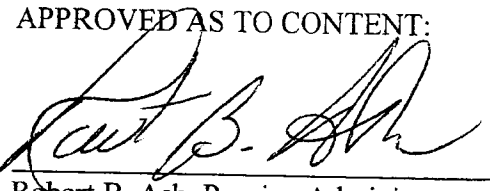
Richarda Duffy Momsen
City Clerk

APPROVED AS TO FORM:



Jorge Villegas
Assistant City Attorney

APPROVED AS TO CONTENT:



Robert B. Ash, Pension Administrator
City Employees' Pension Fund

ORDINANCE NO. _____

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